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# Deddeh Transportation Bond Act

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## Official Title and Summary Prepared by the Attorney General

**DEDDEH TRANSPORTATION BOND ACT.** This act provides for a bond issue of one billion dollars (\$1,000,000,000) to provide funds for capital improvements for local streets and roads, state highways, and exclusive public mass transit guideways.

## Final Vote Cast by the Legislature on SB 140 (Proposition 74)

Assembly: Ayes 54  
Noes 14

Senate: Ayes 27  
Noes 7

## Analysis by the Legislative Analyst

**Background**

California finances its transportation system with a combination of federal, state and local money. Historically, most of this money has come from taxes and fees paid by those who use the system. For example, state funds come from a tax of 9 cents per gallon on motor vehicle fuels—mainly gasoline and diesel fuel. The state also collects truck weight fees. These tax and fee revenues are used for state highways, rail transit projects, and local streets and roads, as follows.

**State Highway and Rail Transit.** About half of the revenues from the motor vehicle fuel tax and all of the revenues from truck weight fees are used for state purposes. In 1988–89, these revenues will amount to about \$1 billion. The state will use these funds to (1) design, build and maintain state highways, (2) match federal funds to build new and reconstruct existing highways, and (3) fund rail transit projects. In recent years, state funds have not grown enough to keep pace with demands for transportation improvements. As a result, the state's ability to finance highway and rail transit capital improvements has been reduced.

**Local Streets and Roads.** The other half of state fuel tax revenues is used by cities and counties for local streets and roads. In 1988–89, these funds will total about \$600 million. In addition, counties can impose, if approved by the voters, a local sales tax of up to 1 percent for transportation purposes. At present, four counties have adopted a ½-percent sales tax for transportation. Several other counties are requesting voter approval for a similar tax at this June election.

Counties also can impose a per-gallon tax on motor vehicle fuels, in 1-cent increments, for transportation uses, when the tax is approved by the voters. So far, no county has adopted such a tax.

**Proposal**

This measure authorizes the state to sell \$1 billion of general obligation bonds for capital improvements on state highways, rail transit, and local streets and roads.

Capital improvements include project design, land purchases and construction activities. General obligation bonds are backed by the state, meaning that the state will use its taxing power to assure that enough money is available to pay off the bonds. The state will use General Fund revenues to pay the principal and interest costs of the bonds. General Fund revenues are derived primarily from the state corporate and personal income taxes and the state sales tax.

The bond money would supplement other state and federal transportation moneys. All these funds would be applied toward target levels of transportation activities established in current law. These target levels include (1) \$1 billion annually to expand the state's highway system, (2) \$75 million annually for rail transit projects, and (3) \$15 million annually for highway soundwall (noise abatement) projects. In addition, the bond money could be used to provide \$300 million in 1990–91 to match local funds to improve certain state highways, local roads, or rail transit projects.

**Fiscal Effect**

**Direct Costs of Paying Off the Bonds.** The state would make principal and interest payments on these bonds from the state's General Fund over a period of about 20 years. Assuming all of the authorized bonds are sold at an interest rate of 7.5 percent, the cost would be about \$1.8 billion to pay off both the principal (\$1 billion) and interest (about \$790 million). The average payment for principal and interest would be about \$90 million per year.

**Borrowing Costs for Other Bonds.** By increasing the amount which the state borrows, this measure may cause the state and local governments to pay more under other bond programs. These costs cannot be estimated.

**State Revenues.** The people who buy these bonds are not required to pay state income tax on the interest they earn. Therefore, if California taxpayers buy these bonds instead of making other taxable investments, the state would collect less taxes. This loss of revenue cannot be estimated.

## Text of Proposed Law

This law proposed by Senate Bill 140 (Statutes of 1988, Ch. 24) is submitted to the people in accordance with the provisions of Article XVI of the Constitution.

This proposed law adds sections to the Streets and Highways Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

### PROPOSED LAW

SEC. 17. Chapter 17 (commencing with Section 2700) is added to Division 3 of the Streets and Highways Code, to read:

#### CHAPTER 17. DEDDEH TRANSPORTATION BOND ACT

##### Article 1. General Provisions

2700. This chapter shall be known and may be cited as the Deddeh Transportation Bond Act.

2701. As used in this chapter, the following terms have the following meanings:

(a) "Committee" means the Transportation Improvement Finance Committee created pursuant to Section 2712.

(b) "Department" means the Department of Transportation.

(c) "Fund" means the Transportation Improvement Bond Fund created pursuant to Section 2705.

##### Article 2. Transportation Improvement Program

2705. The proceeds of notes and bonds issued and sold pursuant to this chapter shall be deposited in the Transportation Improvement Bond Fund, which is hereby created.

2706. The money in the fund, upon appropriation by the Legislature, shall be available for expenditure without regard to fiscal years for state highway and exclusive public mass transit guideway capital improvements in accordance with Chapter 2 (commencing with Section 14520) of Part 5.3 of Division 3 of Title 2 of the Government Code and for local community transportation capital improvements on local streets and roads, state highways, and those guideway projects.

##### Article 3. Fiscal Provisions

2710. Notes and bonds in the total amount of one billion dollars (\$1,000,000,000), exclusive of refunding bonds, or so much thereof as is necessary, may be issued and sold to provide a fund to be used for carrying out the purposes expressed in this chapter, and to be used to reimburse the General Obligation Bond Expense Revolving Fund pursuant to Section 16724.5 of the Government Code. The notes and bonds shall, when sold, be and constitute a valid and binding obligation of the State of California, and the full faith and credit of the State of California is hereby pledged for the punctual payment of both principal of, and interest on, the notes and bonds as the principal and interest become due and payable.

2711. (a) Except as provided in subdivision (b), the notes and bonds authorized by this chapter shall be prepared, executed, issued, sold, paid, and redeemed as provided in the State General Obligation Bond Law (Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the Government Code), and all of the provisions of that law apply to the notes and bonds and to this chapter and are hereby incorporated in this chapter as though set forth in full in this chapter.

(b) Notwithstanding any other provision of this chapter or the State General Obligation Bond Law, the following applies:

(1) Each issue of bonds authorized by the committee shall have a final maturity of 20 years and shall be structured to provide, as nearly as possible, level principal payments over the life of the bonds.

(2) Any bonds may be called and redeemed prior to their stated maturity only from the proceeds of refunding bonds or from funds appropriated by the Legislature which are proceeds of taxes of the state anticipated to exceed the state's appropriations limit for any fiscal year, if the amount used to redeem the bonds does not exceed the amount which is certified by the Controller to be the excess of proceeds of taxes for that fiscal year, as those terms are defined in Article XIII B of the California Constitution. For purposes of this paragraph, the use of proceeds of taxes to redeem bonds prior to their stated maturity shall be deemed to be the payment of debt service on the bonds within the meaning of Article XIII B. The dedication of the proceeds of taxes to an escrow fund to redeem the bonds on the first date on which they may be redeemed shall also be deemed as payment of debt service on the bonds within the meaning of Article XIII B.

2712. (a) The Transportation Improvement Finance Committee is hereby created. For purposes of this chapter, the Transportation Improvement Finance Committee is "the committee" as that term is used in the State General Obligation Bond Law (Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the Government Code). The committee consists of the Treasurer, the Director of Finance, the Controller, the Director of Transportation, and the Lieutenant Governor, or their designated representative. The Treasurer shall serve as chairperson of the committee. A majority of the committee may act for the committee.

(b) For purposes of the State General Obligation Bond Law, the Department of Transportation is designated the "board."

2713. The committee shall determine whether it is necessary or desirable to issue notes and bonds authorized pursuant to this chapter in order to carry out the actions specified in Section 2706, and if so, the amount of notes and bonds to be issued and sold. Successive issues of notes and bonds may be issued and sold to carry out those actions progressively, and it is not necessary that all of the notes and bonds so authorized be issued and sold at any one time. The committee shall consider program funding needs, revenue projections, financial market conditions, and other necessary factors in determining the shortest feasible term for the notes and bonds issued.

2714. There shall be collected annually, in the same manner and at the same time as other state revenue is collected, the sum, in addition to the ordinary revenues of the state, required to pay the principal of, and interest on, the notes and bonds due and payable each year and it is hereby made the duty of all officers charged by law with any duty in regard to the collection of the revenue to do and perform each and every act which is necessary to collect the additional sum.

2715. Notwithstanding Section 13340 of the Government Code, there is hereby appropriated from the General Fund in the State Treasury, without regard to fiscal years, for the purpose of this chapter, an amount equal to that sum annually necessary to pay the principal of, and the interest on, the notes and bonds issued and sold pursuant to this chapter as the principal and interest become due and payable.

2716. Money may be transferred from the fund to the State Transportation Fund to reimburse the State Highway Account for expenditures made subsequent to the adoption of this chapter by the voters for the purposes of state highway and exclusive public mass transit guideway capital improvements in accordance with Chapter 2 (commencing with Section 14520) of Part 5.5 of Division 3 of Title 2 of the Government Code as specified in Section 2706.

The aggregate amounts that may be transferred under this section shall not be in excess of amounts appropriated by the Legislature from the fund for that purpose.

2717. The board may request a loan from the General Fund or the Pooled Money Investment Account, in accordance with Section 16312 of the Government Code, for the purposes of carrying out this chapter.

The amount of the request shall not exceed the amount of the unsold notes and bonds which the committee has, by resolution, authorized to be sold for the purposes of carrying out this chapter. Money received from the sale of bonds shall be used to repay the loan.

Any amounts loaned shall be deposited in the fund to be allocated by the board in accordance with this chapter.

2718. All money deposited in the fund which is derived from premium and accrued interest on notes and bonds sold shall be reserved in the fund and shall be available for transfer to the General Fund as a credit to expenditures for bond interest.

2719. Any bonds issued and sold pursuant to this chapter may be refunded by the issuance of refunding bonds in accordance with Article 6 (commencing with Section 16780) of the State General Obligation Bond Law. Approval by the electors of the state for the issuance of bonds shall include approval of the issuance of any bonds issued to refund any bonds originally issued or any previously issued refunding bonds.

2720. The Legislature hereby finds and declares that, inasmuch as the proceeds from the sale of notes and bonds authorized by this chapter are not "proceeds of taxes" as that term is used in Article XIII B of the California Constitution, the disbursement of these proceeds is not subject to the limitations imposed by that article.

2721. The Department of Transportation shall be responsible for the administration of all money in the fund. In consultation with the Treasurer and the Director of Finance, the department shall establish the procedures necessary to ensure compliance with all state and federal laws pertaining to the sale and use of general obligation bonds.

## Argument in Favor of Proposition 74

A yes vote on Proposition 74 is a vote for more and better highways. It is a vote for better public transportation and better local streets and roads.

If you are one of the millions of Californians meeting irritating delays driving to and from work, Proposition 74 is especially important to you. Even if you are not a California commuter, Proposition 74 is still important to you. Making sure people and goods can move efficiently on our state's transportation system means getting products and services where they are needed and at a lower price. More efficient highways also mean cleaner air.

The roads and public transportation built with Proposition 74 money will be working for all Californians into the next century. Proposition 74 will let all Californians who benefit, then and now, share in the cost.

Proposition 74 will provide a billion dollars for transportation. Local governments will be eligible to share \$300 million for whatever local priorities call for—streets,

roads, public transportation improvements, or locally important additions to the state highway system. Seven hundred million dollars will be used for state highways, public transportation facilities, and soundwalls along busy freeways.

Our state has the finest transportation system in the country. We have pioneered designs and technology that are imitated all over the world. We have met the challenge of building a highway system that is second to none. Now the challenge is to add the new lanes, the new interchanges, and the new highways in growing areas that California must have for jobs and healthy economy.

We urge you to vote YES on Proposition 74.

**GEORGE DEUKMEJIAN**  
Governor

**WADIE DEDDEH**  
Member of the Senate, 40th District

**TOM HAWTHORNE**  
Chairman, California Transportation Commission

## Rebuttal to Argument in Favor of Proposition 74

A yes vote on Proposition 74 does not begin to meet California's transportation needs. *A yes vote is a vote for the most expensive streets and highways in our state's history.*

In fact, this bond measure is a revolutionary departure from a decades-old pay-as-you-go tradition that allowed us to build the nation's best transportation system. For this \$1 billion, California taxpayers will pay more than \$2 billion in debt service and other costs. We don't have to travel down this road of fiscal mismanagement.

Only 1/15th of our minimal transportation needs over the next decade will even be addressed by Proposition 74, so let's recognize this bond proposal for what it is—an expensive hoax on the state's taxpayers.

Californians are being asked to approve an unprecedented \$6 billion in bonds this year. What the sponsors don't talk about is the fact that *this transportation bond*

*costs taxpayers twice as much as the pay-as-you-go system that the state has traditionally used.*

A no vote on Proposition 74 sends a message to Legislature and the Governor that Californians want real answers to our transportation needs. A no vote says our state is not willing to blindly travel down a path of deficit financing.

Vote for fiscal responsibility. Vote no on Proposition 74 and tell state government that you want real transportation solutions, not expensive propositions that won't even do the job.

Sincerely,

**VIC FAZIO**  
Congressman, 4th District

**JOHN GARAMENDI**  
State Senator, 5th District

**GOVERNOR EDMUND G. (PAT) BROWN**  
Former Governor, State of California

Vote June 7, 1988.

## Argument Against Proposition 74

Transportation is a critical problem in California. However, bond financing is *not* an effective solution for the state's taxpayers.

This 1.1-billion-dollar bond will cost today's taxpayers and our children more than \$2 billion when the interest costs are finally paid for twenty years down the road.

Historically, Californians have built the best highway system in the nation on a pay-as-you-go basis. When we needed new roads or transit systems we paid for them through the gas tax and other direct revenue sources. The revolutionary change we are being asked to approve in bond financing for highway construction is just another step down the road of fiscal irresponsibility.

If this example of deficit financing would solve California's transportation problems, what's around the corner might not be so frightening. But it won't. The California Transportation Commission estimates that over the next five years our state will still be *\$1.6 billion short of meeting our immediate transportation needs*, so even if this bond is approved we will merely speed through one warning sign of impending gridlock for a brief moment while we borrow against our children's future in the same motion. This bond act does not represent progress, but a blind denial of the challenges ahead in the mistaken

belief that our transportation problems will simply fade away.

Under the Deukmejian Administration, California is now last of all 50 states in per capita spending on highways. This band-aid, deficit financing approach of taking out loans to pay for transportation is too expensive and too shortsighted. For decades, both Republicans and Democrats have agreed that pay-as-you-go funding of transportation is the responsible path to take. Members of both parties also acknowledge that between \$15 and \$20 billion will be needed to meet the state's transportation requirements by the year 2000.

There is no free lunch when it comes to addressing our transportation needs. Let's face this issue squarely and vote no on Proposition 74. Bond financing of our transportation system represents a radical break with California's past, and a betrayal of California's future.

Sincerely,

JOHN GARAMENDI  
*State Senator, 5th District*

BILL LOCKYER  
*State Senator, 10th District*

MIKE ROOS  
*Speaker pro Tempore, State Assembly*

## Rebuttal to Argument Against Proposition 74

Proposition 74 is a cost-effective way to build more roads and improve California's transportation network, without raising your taxes.

THE OPPONENTS' ALTERNATIVE TO PROPOSITION 74 IS TO INCREASE TAXES OVER A BILLION DOLLARS. IF THAT'S WHAT THEY WANTED, WHY DIDN'T THEY PLACE A TAX INCREASE PROPOSAL ON THE BALLOT AND LET THE PEOPLE VOTE ON IT?

Bonds have been used to build public facilities of all kinds in California, and are used for transportation in many other states. They can effectively be used to build roads here in California as well.

Every resident who has a mortgage payment or a car payment recognizes that it makes good sense to invest in major purchases and pay back the investment over time. The same holds true for the transportation system you and your children will use for years to come.

Proposition 74 does not replace historic funding methods. It helps meet today's unique transportation chal-

lenges. It guarantees that projects planned throughout the state will be built. It assures that we will receive our full share of federal highway funds.

THE BONDS IN PROPOSITION 74 ARE NOT REQUIRED TO BE PAID BACK OVER 20 YEARS AS THE OPPONENTS CLAIM. PROPOSITION 74 ALLOWS THEM TO BE PAID OFF AT AN EARLIER TIME AT A SAVING TO THE TAXPAYERS.

We need to address our critical transportation needs *now*. The opposition agrees that additional funding is necessary to improve California's transportation network. But other than raising taxes, the opposition offers no solutions. Let us use a method employed in many other states to allow us to build new roads *now*.

GEORGE DEUKMEJIAN  
*Governor*

WADIE DEDDEH  
*Member of the Senate, 40th District*

TOM HAWTHORNE  
*Chairman, California Transportation Commission*